

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held on 8 September 2010

Present:

Councillor Nicholas Bennett J.P. (Chairman)
Councillor Paul Lynch (Vice-Chairman)
Councillors Julian Grainger, Russell Jackson,
Russell Mellor and Stephen Wells

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies were received from Councillor Eric Bosshard.

2 DECLARATIONS OF INTEREST

The Chairman declared a personal interest as a Member of the Bromley Local Government Pension Scheme and as a pensioner of another Local Authority for whom he had worked in the teaching profession. Councillors Paul Lynch, Julian Grainger, Russell Mellor and Stephen Wells also declared a Personal Interest as Members of the Bromley Local Government Pension Scheme.

3 CONFIRMATION OF MINUTES OF THE INVESTMENT SUB-COMMITTEE MEETING HELD ON 4th MAY 2010, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

4 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

The two matters highlighted – Trial Asset Allocation Service and the Inclusion of Property in the Bromley Pension Fund - were covered at items 13 and 15 of the agenda.

5 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

6 PENSION FUND PERFORMANCE

Report DR10074

Bromley's Pension Fund performance was closely linked to item 7 of the agenda, "*WM Annual Report*" and the Sub-Committee considered both items together.

Members received information on the investment performance of Bromley's Pension Fund for 2009/10 and the first quarter of 2010/11. Information was also provided on the general financial and membership trends of the fund along with summarised information on early retirements.

In year performance of the fund was the second best of 87 local authority funds forming the local authority universe and ranked in the second percentile of the universe. A WM report previously circulated to Members provided a comprehensive analysis of performance with a WM document entitled "*UK Local Authority Annual Review 2009/10*" providing an overall review of Local Authority funds for 2009/10.

The total market value of Bromley's Fund had fluctuated considerably in recent years from £180m in 2002/03 to £422m at 23rd August 2010. Given the long-term nature of liabilities, the conversion of performance to medium and long-term returns had been extremely good. Baillie Gifford had achieved an overall return of +51.3% (6.3% above their benchmark for the year) and Fidelity had returned +45.9% (4.4% above benchmark). Overall Fund performance was 9.9% above the local authority average for the year.

A summary of performance by Baillie Gifford and Fidelity was also shown for the June quarter 2010/11 with Baillie Gifford returning -7.6% (0.8% above their benchmark) and Fidelity returning -9.0% (0.7% below their benchmark). For periods ended 31st March 2010, brief commentary was also provided on comparative returns over three, five and ten years for the two fund managers. The strength of Bromley's performance in the last three years was also highlighted following bedding in of the investment strategy driven by adoption of the revised benchmark in 2006.

Additional information to Members included: a summary of early retirements (including those on ill health grounds); details of the 2009/10 Pension Fund Revenue Account outturn and first quarter position for 2010/11; data on fund membership; and changes in the Fund's Market Value. The final outturn for 2009/10 showed a surplus of £9.4m and on fund membership there was an overall increase of 516 members during the year..

A representative of the WM Company gave a presentation on the 2009/10 results and circulated a document reviewing Bromley's Investment Performance.

Referring to the document the representative commented on market background highlighting the relative performance of Equities, Bonds,

Alternatives and Currencies. She referred to good returns from equities and an average return for Bonds of about 17%. She also commented on the longer term performance of assets to March 2010; Performance of Assets relative to Market Indices and Local Authority Average Asset Allocation. She explained that a number of other Local Authority funds were investing in Alternatives and returns from these assets had not helped recent performance of LA funds. LA funds were producing a return of some 8.5% above inflation but Active Managers were often not achieving what they should be against benchmark. There also seemed to be a trend to index tracking.

A question was asked about property investment and Members were advised that Property returns were expected to perform better than returns from Bonds. They would also help diversify risk.

The WM representative explained that Bromley was one of a small number of authorities having only two Fund Managers. WM were concerned that with some Local Authorities having up to 10/12 Fund Managers there could be increased problems over control levels. The WM representative saw no added value in having a complexity of Fund Managers and commended Bromley's approach and achievements.

It was noted that, unlike Bromley, most Local Authorities had underperformed against their benchmark. Baillie Gifford achieved a good performance - the Portfolio being above both benchmark and target over the medium term, assisted by the latest year's excellent results. Equity performance had been especially strong particularly within the UK and Emerging Markets. Bond Performance, although strong in the latest year, continued to have a drag on the longer term. WM felt that the Portfolio had also benefitted from asset allocation decisions, particularly the overweighting to Emerging Markets.

Fidelity had achieved even better with the Portfolio above benchmark and target in the medium term following three consecutive years of excellent performance. WM felt that equity selection especially within the UK had been particularly good in the recent period and Members were advised that stock allocation formed the bulk of out performance by Fidelity.

The Investment Performance Review referred to Fund Benchmarks and Targets for Baillie Gifford and Fidelity; Fund Performance; Total Fund vs Strategic Benchmark Returns; and Manager Performance including latest year and longer term assessments for both Baillie Gifford and Fidelity. Assessment was also provided of Bromley's Funds against those of other Local Authorities; latest year details and Fund Ranking for Assets.

The WM representative explained that Fidelity had taken a lower level of risk than Baillie Gifford but were nevertheless making a good return. However, she questioned how long this could continue. Fund Manager Performance was cyclical and the performance was unlikely to be sustainable. She also highlighted that Bromley's 48.7% return for 2010 was 10% above the return for the average fund. The Chairman thanked the WM representative for her presentation.

In discussion Councillor Grainger suggested that any cash/capital injections or additional lump sums to the fund be “stripped out” in a coloured graph. This would indicate how much of the fund’s value increase was due to performance and how much due to capital injections. The Vice-Chairman also asked a similar question enquiring how much was due to performance and how much due to employee contributions. The technical Group Accountant confirmed that the value was due solely to performance – the employee contributions went to the Pension Fund Revenue Account – and it would be necessary to discuss further with Councillor Grainger any arrangements for stripping out cash/capital injections to the fund. Such a graph would however show the same outcome on the fund’s performance. Councillor Grainger also drew attention to the return of the fund over ten years. He felt that the figures shown (page16 of the Investment Performance Review) were relatively small, showing a return just above £20m over ten years.

RESOLVED that the report and presentation reviewing investment performance be noted.

7 WM ANNUAL REPORT

Please see Minute 6 above.

8 PENSION FUND – 2009/10 AUDIT PLAN

Report DR10078

At its meeting on 23rd March 2010, the Audit Sub-Committee noted the 2009/10 Audit Plan of the Pension Fund referring it to the Pension Investment Sub-Committee for consideration. Members were advised that the auditor, PricewaterhouseCoopers LLP (PWC), had now effectively completed their audit of the Council’s accounts, including the Pension Fund, and the Plan was therefore submitted to Members for information.

It was also proposed that the 2010/11 Audit Plan be submitted to Members in advance of the audit to enable proper consideration and opportunity to comment.

RESOLVED that the Pension Fund Audit Plan for 2009/10 be noted and the 2010/11 plan be submitted earlier to enable consideration in advance of the audit.

9 PENSION FUND ANNUAL REPORT 2009/10

Report DR10077

Under the Local Government Pension Scheme (Administration) Regulations 2008 the Council was required to publish the annual report and accounts of the Bromley Pension Fund for year ending 31st March 2010.

The annual report was submitted in draft to the external auditor, Price Waterhouse Coopers LLP (PWC) on 2nd July 2010 and following external audit of the Pension Fund accounts a final draft was submitted for audit on 13th August 2010. The Council is required to publish the Annual Report by 1st December 2010.

The Bromley Pension Fund had total net assets of £447.8m at 31st March 2010 compared with £299.2m at 31st March 2009 - the large increase in value at almost 50% being due to a major stock market recovery. This followed the turmoil faced by financial markets in 2008/09 when the fund lost around £63m (17%).

The Fund outperformed against its benchmark by 5.0% over the year (+48.7% against a benchmark return of +41.0%). Performance compared to the local authority universe (average return of +35.2%) was particularly good and a 2% ranking in that universe was achieved for the year (1% being the best and 100% being the worst).

Total membership of the fund rose from 12,864 at 31st March 2009 to 13,380 as at 31st March 2010 when it comprised 5,360 employees, 4,413 pensioners and 3,607 deferred members. Payments into the Fund from employee and employer contributions, transfers in and investment income totalled £40.8m in 2009/10 (£37.3m in 2008/09); payments from the Fund for pensions, lump sums, transfers out and administration totalled £31.4m (£25.4m in 2008/09).

Members were informed that PWC would include a revised opinion at pages 25 to 26 of the Annual Report upon completion of the audit.

RESOLVED that the Pension Fund Annual Report 2009/10 be noted and, on completion of the external audit by PWC, arrangements be made to ensure publication by the statutory deadline of 1st December 2010.

10 NEW INVESTMENT REGULATIONS AND MYNERS PRINCIPLES

Report DR10081

Changes were proposed to the Pension Fund Statement of Investment Principles in order to meet requirements of the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and to indicate the level of compliance with Myners' Principles on institutional

investment (updated and adjusted to reflect the Local Government Pension Scheme). The new regulations required a statement on the Fund's stock lending activities and its policy on responsible ownership to be included in the Statement of Investment Principles.

The Principles were revised during 2008 with the publication of a new set of six principles. These were subsequently reviewed by a working group in 2009 and adjusted to reflect the specific nature of the Local Government Pension Scheme (LGPS). In December 2009, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued statutory guidance for Local Government Pension Schemes to determine their level of compliance with the Principles.

The regulations set out the framework within which the investment of LGPS monies can take place and define investments and investment managers. They also specify the need for diversification, risk management and professional advice.

The revised regulations came into force on 1st January 2010 and three changes were brought to the attention of Members:

- Pension fund cash held by the Council for the payment of benefits would be subject to a separate treasury management strategy and could not be lent to the Council - this was being updated through a revised approach to the separation of funds;
- The Statement of Investment Principles should include a statement of the extent to which the Fund complied with the statutory guidance on the six new "Myners' Principles";
- The Statement of Investment Principles should now include a reference to the Fund's stock lending activities and the policy on responsible ownership.

A draft Statement of Investment Principles was appended to the report before Members. Developments were necessary in certain areas in order for the Fund to fully comply with the Principles and these were summarised along with suggested actions and timescales to ensure compliance. The majority of these would form part of a review of working practices to be completed by December 2011.

Although the new regulations required the Fund to publish details of its stock lending policy and ways of measuring and managing associated risks, this was not currently applicable to Bromley's fund.

Funds were also required to include a statement of their policy on responsible ownership in the Statement of Investment Principles (Principle 5) and Members were advised that the statements of voting and social and ethical and environmental considerations from the previous versions had been combined to meet this requirement.

RESOLVED that the report be noted and the revised Statement of Investment Principles set out at Appendix 1 to the report before Members be agreed.

11 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000

12 CONFIRMATION OF EXEMPT MINUTES OF THE INVESTMENT SUB-COMMITTEE MEETING ON 4TH MAY 2010

The Part 2 minutes were agreed.

13 AEGON PILOT OUTTURN

Members considered the current position on their request for further information from AEGON Asset management on its Asset Allocation Service.

RESOLVED that AEGON be asked to produce a report to the Sub Committee's next meeting providing the information requested by Members.

14 PENSION FUND - INVESTMENT REPORT

Quarterly performance reports (to 30th June 2010) from Fidelity and Baillie Gifford had been circulated to Sub Committee Members prior to the meeting. The reports were noted and a representative from Fidelity attended the meeting to present the Fidelity review and answer questions from Members.

15 INVESTMENT IN PROPERTY

Report DR10079

In response to a request at the Sub-Committee's previous meeting a report was provided on property investment and consideration was given on whether to include this asset class for the Bromley Pension Fund.

RESOLVED that the Sub-Committee be asked to note the report and maintain a watching brief on the property market.

The Meeting ended at 9.50 pm

Chairman